MOMENTUM 2015

Middle Market Technology Outlook

A 2015 CohnReznick LLP Report

CohnReznick
Accounting • Tax • Advisory

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noun: impetus and driving force gained by the development of a process or course of events

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Preface

Alex Castelli

The market's appetite for innovation, the investment community's eagerness for investment, and a strengthening economy set an opportunistic stage for middle market technology companies to expand and grow in 2015. While the U.S. technology industry will undoubtedly face challenges in the upcoming year—from increasing international competition to expanding taxation pressures—the outlook for the technology sector this year projects growth and a corresponding robust access to capital. How do middle market technology companies navigate the challenges and champion the opportunities in the landscape ahead for the next 12 months?

In this report, CohnReznick's "2015 Middle Market Technology Outlook," we analyze the industry, activity drivers and key issues that will make a difference for technology companies for the upcoming year. With a distinct focus on the U.S. middle market, we define middle market companies congruent with the definition used by the National Center for the Middle Market—that is, private companies with revenues between $10 million and $1 billion. We define public middle market companies as those with a market cap of $10 million to $2 billion.

Driven in part by new perspectives on longstanding issues as well as new insights on game-changers, in this report, CohnReznick identifies trends, opportunities, and challenges on this next 12-month horizon that will propel technology companies to undertake substantial shifts in strategy in order to more effectively compete. These include:

- The market's insatiable appetite for technology companies to continue to create innovative products and services
- Heated merger and acquisition activity
- Technology companies' ability to sustain long-term revenue growth in spite of and because of game changers such as crowdfunding, immigration reform, and big data
- An IPO market whose doors continue to swing open for smaller and middle market businesses

We hope you find the "Middle Market Technology Outlook" to be a thought-provoking commentary as it highlights strategies that middle market technology businesses can adopt in order to better compete, respond, and adapt to 2015's progressively dynamic business and economic environment.

Alex Castelli
Partner,
Technology Industry
Practice Leader

February 2015

Today's Technology Business Environment

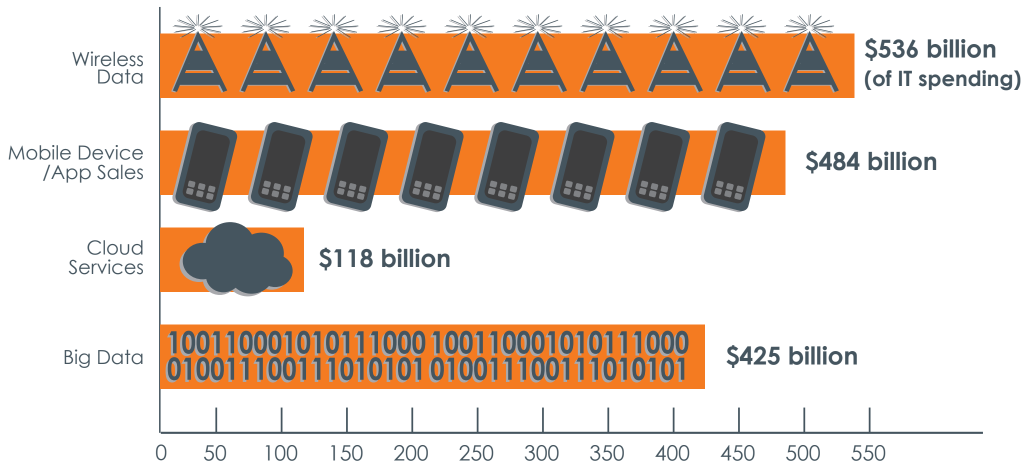
The Technology Industry Business Climate in 2015: Hot.

The U.S. economic environment is ripe for sustained expansion and an upward trend in activity heading into 2015. According to the Bureau of Economic Analysis, GDP growth was 5% in the third quarter of 2014, surpassing previous estimates and market expectations. In fact, this growth marks the highest pace since the third quarter of 2003, reflecting an upturn in consumer spending and investment and a downturn in imports[1].

[1] *http://www.tradingeconomics.com/united-states/gdp-growth*

On an industry level, worldwide growth for information and communications technology (ICT) is expected to increase by 3.8% in 2015 to $3.8 trillion—with cloud computing, big data, mobile devices and social media garnering the majority of spending growth[2]. Clearly, the increased demand for technology products and services is imminent—and so is the activity required to support it. The following chart reflects some of the predicted growth in information and communications technology in 2015:

Technology Industry Segment Forecasts for 2015



Source: San Diego Times: http://sdtimes.com/idcs-top-10-technology-predictions-2015

CohnReznick believes the level of activity required to support the sector's growth in 2015 is in solid motion. Heading into 2015, competition is high among investors and lenders for quality deals. Merger and acquisition (M&A) activity is on a steady and staggering increase. According to FactSet Research Systems, technology services M&A deals hit the 492 mark by November 2014 compared to 369 deals for the same period in the previous year—a 33% increase[3]. Historically low interest rates, an abundance of investment capital, high EBITDA multiples, and insatiable demand for continuous innovation are all factors that are converging to propel the technology market to feverishly expand in 2015.

Clearly, M&A activity is on the rise, but where are Initial Public Offerings (IPOs) headed in 2015? While the number of IPOs in 2014 exceeded the number of IPOs in 2013, the process of going public continues to be challenging for middle market companies due to regulatory and financial requirements; however, middle market tech companies with a compelling growth story, sustainable revenue streams, market share potential, and brand differentiation will be better positioned for a successful IPO, particularly as the Jumpstart Our Business Startups (JOBS) Act "On Ramp" regulations take flight and regulatory barriers continue to be addressed.

Even with strong transaction activity, economic momentum and a burgeoning market for all things technology, 2015 brings with it a number of game changers that have the potential to influence the performance of technology companies and account for the difference between growth and stagnation. These include subscription revenue models, advances in access to data analytics and technology productivity tools. It is prudent for technology companies to stay abreast of these game changers and act proactively in order to fuel efficiency and propel growth in the year ahead. CohnReznick advises middle market technology companies to not only see the forest through the trees but to also analyze the impact that game changers can have on their subsector and ways of building business strategies in 2015.

[2] *International Data Corporation, Top 10 Technology Predictions for 2015*

[3] *https://www.factset.com/mergerstat_em/monthly/US_Flashwire_Monthly.pdf*

A Message to Tech Companies from Our National Director of Governmental Affairs—Bob Moss

One year ago at this time, our view was that the bipartisan budget agreement authored by Senate Budget Chair Patty Murray and House Budget Chair Paul Ryan would possibly set the stage for a more cooperative Congress in 2014. However, the effects of that agreement wore off shortly after publication, which resulted in a Congress that passed the fewest bills in modern day history. With a new Congress and the largest Republican House majority since 1948, technology companies will be most interested in following legislative developments as they pertain to internet sales tax, tax extenders, immigration reform, patent reform, the intelligence authorization bill, and the overall legislative calendar.

Internet Sales Tax—Is 2015 the Year of the Internet Tax?

Last year was a start and stop year for legislation affecting technology, including the effective shut down of any consideration of a federally-mandated internet sales tax. The Senate passed the Marketplace Fairness Act (MFA), which provides states the authority to compel out-of-state internet retailers to collect sales tax; however, a House version of the bill was killed by Speaker John Boehner shortly after the mid-term election. Lame duck efforts to resurrect the bill by the National Retail Federation and others were not successful. The bipartisan Senate bill, which passed by a vote of 69-27 last year, is strongly supported by national brick-and-mortar retailers. However the bill is also opposed by many anti-tax and small-government groups.

House Judiciary Committee Chairman Robert Goodlatte recently issued his seven basic principles on the tax, including that it should "provide tech neutrality;" that brick and mortar and online businesses should all be on equal footing. It is yet to be determined whether the House can come up with a compromise bill in 2015 that will satisfy both chambers of Congress as well as the White House.

What Does This Mean for Technology Companies?

The impact of sales tax on internet sales requires the collection of sales tax on online sales where the company previously did not have nexus such as a bricks and mortar presence. One of the advantages of buying online is that it is generally free of sales tax when the retailer does not have a physical presence or location in that state. It is viewed as an additional incentive for the buyer. Online retailers can continue to charge less for their products online since they may have lower overhead. The larger issues at stake are sales tax compliance for the retailer and the loss of an additional price advantage for the buyer by not having to pay sales tax.

While extending the Research and Development Credit is a tremendous advantage to the technology industry, legislation that ensures permanence of the provision would be even more beneficial. With certainty that the credit is available long-term, technology companies would be more likely to invest in research and development initiatives, with an eagerness to take advantage of the incentive.

Tax Extenders—A Big Package Reduced to Rubble

Extender legislation discussions started between Majority Leader Harry Reid and then Ways and Means Chairman David Camp shortly after conclusion of the mid-term elections. However, the discussions were sidetracked by the President's executive order on immigration, which had many ripple effects on cooperation in the Lame Duck session. In addition to passing extenders legislation, much had to be accomplished before year-end, including avoiding a government shutdown. In November, Camp and Reid pieced together a two-year extenders agreement at a total cost of $450 billion. This included $139 billion for a permanent Research and Development Credit. The White House issued a veto threat on the agreement, stating that it did not include the Earned Income Tax Credit for low-income families. Such action suspended the entire two-year bill.

As a result, Congress passed a one-year extenders package, which expired on December 31, 2014; however, it does little for business certainty and development in 2015. Both incoming Ways and Means Chairman Paul Ryan and Senate Finance Chairman Orrin Hatch had hinted that they would act on the expired provisions in late January, which could resolve these issues and lead to much more comprehensive action on a tax code overhaul. The Ways and Means Committee republicans planned to have a tax reform retreat in late January to review ideas for tax reform, and recently, Hatch created working groups to review tax reform changes and report by the end of May.

Issues That Remain: Immigration Reform, Patent Reform, and the Intelligence Authorization Bill

Much of what was on the table for 2014 remains on the table for the new 114th Congress in 2015. Additional action on immigration reform is expected in both the Senate and the House (despite the executive order), and patent reform is likely to be passed as the House-supported Goodlatte Innovation Act is brought before the new Republican-controlled Senate and signed by the President. On December 11, 2014 the House and Senate approved an intelligence authorization bill that includes controversial language about communications collection by the federal government—a provision that is sure to be challenged in 2015.

The 2015 calendar is filled with many deadlines and will be tough for lawmakers to navigate. On March 31, the debt ceiling expires as does the medical "doc-fix." The deadline for a transportation funding bill is May 31, and the nation then hits October 1, 2015 and the FY 2016 budget deadline and the return of sequestration. By that time, we will be well into the 2016 election campaign, and to summarize, Congress has a short amount of time with a very extensive agenda—here we go again.

What Does This Mean for Technology Companies?

Immigration reform would allow companies to retain talent in the U.S. A significant number of people are educated in the U.S. and then are required to go back to their countries rather than stay in the U.S. and build businesses or contribute to the growth of the U.S. economy. This not only creates a brain drain in the U.S., but also helps foster foreign competition.

Patent reform—a long-standing issue—needs to be enforced to ensure that so-called "patent trolls" cannot abuse the system by instigating unnecessary litigation. Without reform, patents held by technology companies are targets of patent trolls and incur significant dollars defending their patents, or settling to avoid litigation.

Technology companies that provide content via mobile devices would be impacted by the intelligence authorization bill. The bill gives the federal government unlimited access to all communications by individuals, including private communications. Therefore, anyone who wishes to protect their privacy will be affected.

Competitive Forces

Attracting and Retaining Competent Tech Workers in 2015

In a market rife with competition to hire and retain knowledgeable technology workers, middle market technology companies are becoming more creative about using incentives that appeal to a competent talent pool. CohnReznick believes increased vigilance will pay off in 2015 as companies entice employees with a mix of financial and soft-sell incentives.

According to Dice Holdings, 60% of hiring managers surveyed expect to hire more technology professionals in the first half of 2015. However, "Competition for talent is heating up, and as highly skilled professionals become more coveted, companies will need to create an action plan for when the perfect candidate chooses another job or ups the stakes and requests a higher salary before accepting the position.[4]" What can middle market technology firms do in 2015 to position themselves more competitively? CohnReznick advises technology companies to pay close attention to compensatory incentives that are trending.

[4] *"Tech Hiring Setting a Record, Overall Job Creation Big Too." Redfish Tech. December 8, 2014. http://www.redfishtech.com/hook_line_sinker/2014/12/recruiting-staffing-employment-news-december-2014/*

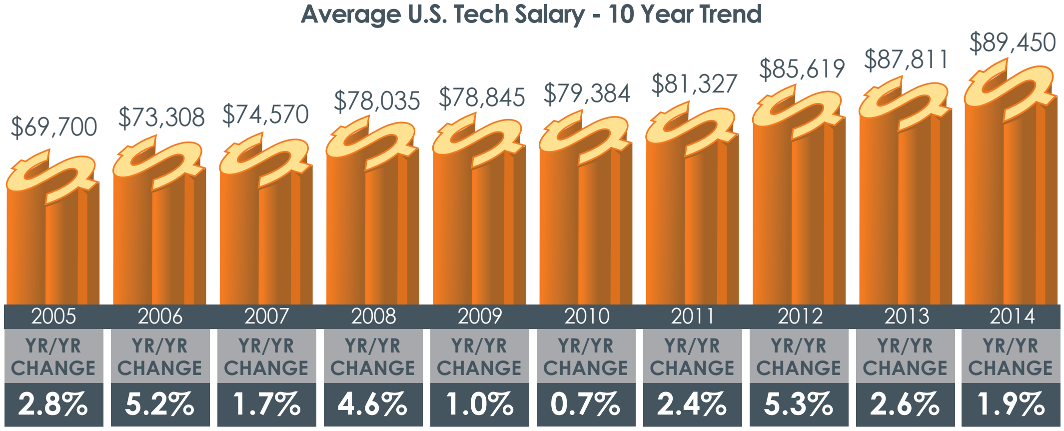
Money Talks or Talent Walks

In 2015, technology workers will continue to command a premium in their compensation. "If you don't pay your engineers, they are going to get recruited away," said Mark Landay, managing director, Dynamic Synergy Corporation, a leading executive search firm for the technology industry. "We're seeing the startups getting closer in compensation to the big public companies."

To encourage the retention of key technology executives, more technology companies are offering restricted stock, shares granted outright at zero cost to executives, but that vest after a set period of employment and sometimes are subject to performance criteria. The objective of restricted stock is to encourage retention of key executives through time and/or performance vesting schedules that require executives to remain with the company and/or meet certain performance goals in order to vest stock awards. "Restricted stock can be a win-win scenario for both the employee and the technology company," said Jeffrey Bobrosky, a CohnReznick partner. Why? Because the employer generally does not have an outright cash outlay related to awarding the stock to its executives and executives are motivated by restricted stock as a form of incentive particularly when the small or middle sized technology company has positive growth potential that lead to increases in shareholder value.

"Taxation of restricted stock and the associated tax deduction that companies receive are another reason why more technology companies are awarding restricted stock," said Neil Gerard, a CohnReznick partner. What is the amount of the deduction to the technology company? The executive recognizes ordinary income equal to the fair market value of the stock at the date the restrictions lapse and the company generally recognizes a tax deduction at the same time and in the same amount as ordinary income recognized, if any, by the executive. For small and middle market technology companies, restricted stock is an attractive compensation option as it allows employers who may be strapped for cash to be competitive in the labor marketplace without having to use cash reserves to do so.

Average U.S. Tech Salary - 10 Year Trend



Source: http://marketing.dice.com/pdf/Dice_TechSalarySurvey_2014.pdf

Closing the Work-Life Rift

From a human resources perspective, Landay sees a trend toward offering unlimited time off. Within the past year, companies have even begun to offer "pre-cations" and "pre-sabbaticals"—short periods of time off before beginning a new job or sabbatical. In 2015, technology companies should position to offer more flextime, remote working, and telecommuting in order to legitimately compete for top talent. Companies are keenly aware that the work-life balance nexus has changed. Instead of endorsing a rift, technology companies, in particular, are empowering complete integration between home life and work life by offering dry cleaning, locker rooms and gyms, yoga classes and onsite childcare.

Immigration Reform a Moot Point?

Into 2015, CohnReznick believes middle market companies are at a disadvantage when it comes to immigration reform because an executive order will not increase the number of H-B1 visas. With attorneys on staff and the ability to work around contractor relationships, Fortune 500 companies hold an advantage over middle market companies, who rely on outside firms and cannot as easily go after the opportunities they want.

> **"If you don't pay your engineers, they are going to get recruited away. We're seeing the startups getting closer in compensation to the big public companies."**
>
> Mark Landay
> Managing Director,
> Dynamic Synergy
> Corporation

What does CohnReznick *think?*

In 2015, in a hyper-competitive market for intellectual capital, CohnReznick expects that increasing importance will be placed on creating better work-life balance opportunities for technology workers while also leveraging strong financial incentives. Updating policies and procedures, understanding the tax implications of restricted stock and other incentives, and considering additional equity based compensation will better ensure stability within a technology company's workforce and enable companies to more effectively compete in the 2015 marketplace.

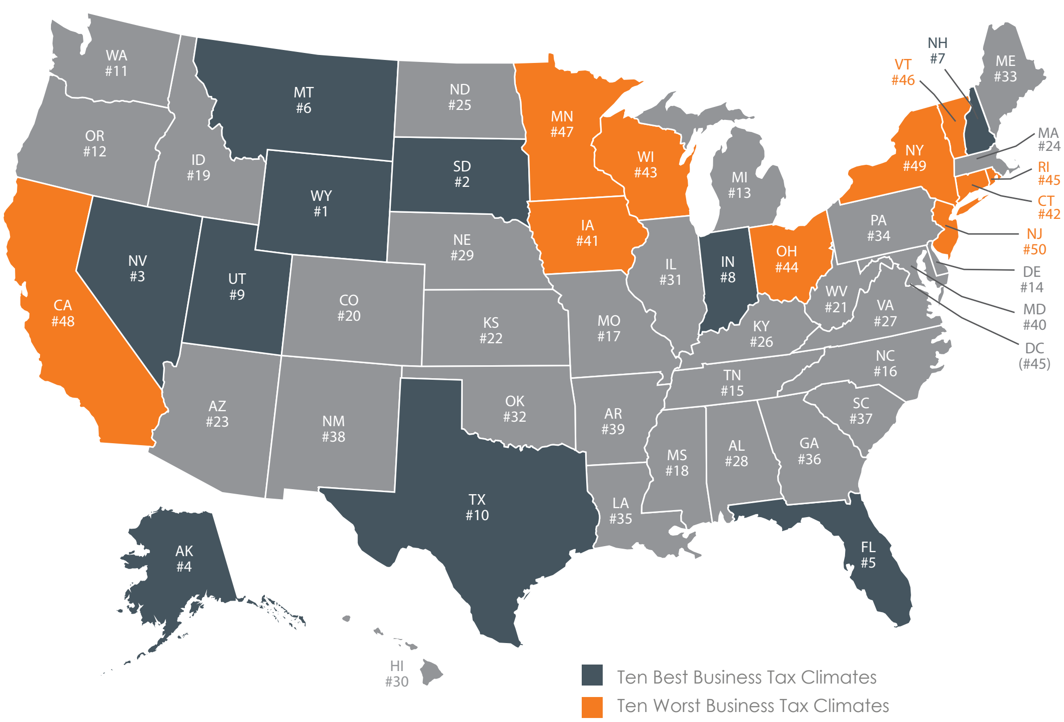
Technology Companies and State Incentives in 2015

In 2015, CohnReznick expects states to act more aggressively in offering competitive tax incentives to technology companies. Why? Because states are trying to attract jobs and by creating and competitively improving their state incentive programs, states can more aggressively pursue companies that are expanding—and technology companies are their ideal target. In light of this trend, "While the big players can get their own deals, that doesn't necessarily ring true for small and middle market technology companies," said Patrick J. Duffany, a CohnReznick partner and the Firm's State and Local Tax Practice Leader. While we expect states to be more aggressive in incentivizing technology companies in 2015, it is nothing new that small and middle market technology companies should consider the dynamic environment of state tax incentives and understand what matters to states in awarding those incentives—jobs.

Luring Technology Talent Across Borders

States look at the numbers, and the bottom line is that, heading into 2015, approximately 65% of state tax revenues come from personal income and sales tax. "States wants to drive growth," said Duffany. "States are trying to improve their profiles in the tax community by attracting the right jobs." States are actively looking for technology firms, given the young, highly compensated pool of workers that technology companies offer. States also look long-term and an added bonus for them is the potential for longevity in the young, highly compensated pool of workers that technology companies attract.

2015 State Business Tax Climate Index



Source: 2015 State Business Tax Climate Index." Tax Foundation. Scott Drenkard and Joseph Drenchman. October 28, 2014. http://taxfoundation.org/article/2015-state-business-tax-climate-index

The incentives will continue to rapidly change in 2015 as states become more competitive in wooing technology companies. Nearly every state has invested in incentivizing through grant programs, loan programs, tax credits, and sales tax programs—that are constantly evolving. Case in point, New York and New Jersey just revamped their incentive programs. In New York, if a job is put in the right location, a business could be in a position to not have to pay state taxes for 10 years. However, be forewarned. According to Duffany, "When a state has a revenue issue or budget deficit, the tax credit programs are one of the first to come under attack." It is both an opportunity and a challenge because states retract credits in tough times.

Although tax credits may sound alluring, "the truth is that if a state needs to offer such packages, it is sometimes because it is covering for a woeful business tax climate," according to the Tax Foundation. Therefore, it is critical to uncover the motivation behind the credits before making significant business decisions in 2015.

What should technology companies do to become more competitive in winning state tax incentives in 2015? Understand that applications are viewed more favorably when a company specifies the benefit to the state—generally, that benefit comes in terms of the number of jobs a company can add to the state's tax revenue stream. However, with state tax incentive programs changing so rapidly, "The deepest trap companies fall into is to make a decision before investigating a state's incentives," said Duffany. Why should any state incentivize companies if they are already moving in? In addition, states love to pick the pockets of other states. They act more competitively with a company that is contemplating moving into the state versus one that is already a resident and is only expanding within the state.

"The deepest trap companies fall into is to make a decision before investigating a state's incentives,"

Patrick Duffany
Partner,
State and Local Tax
Practice Leader

What does CohnReznick *think?*

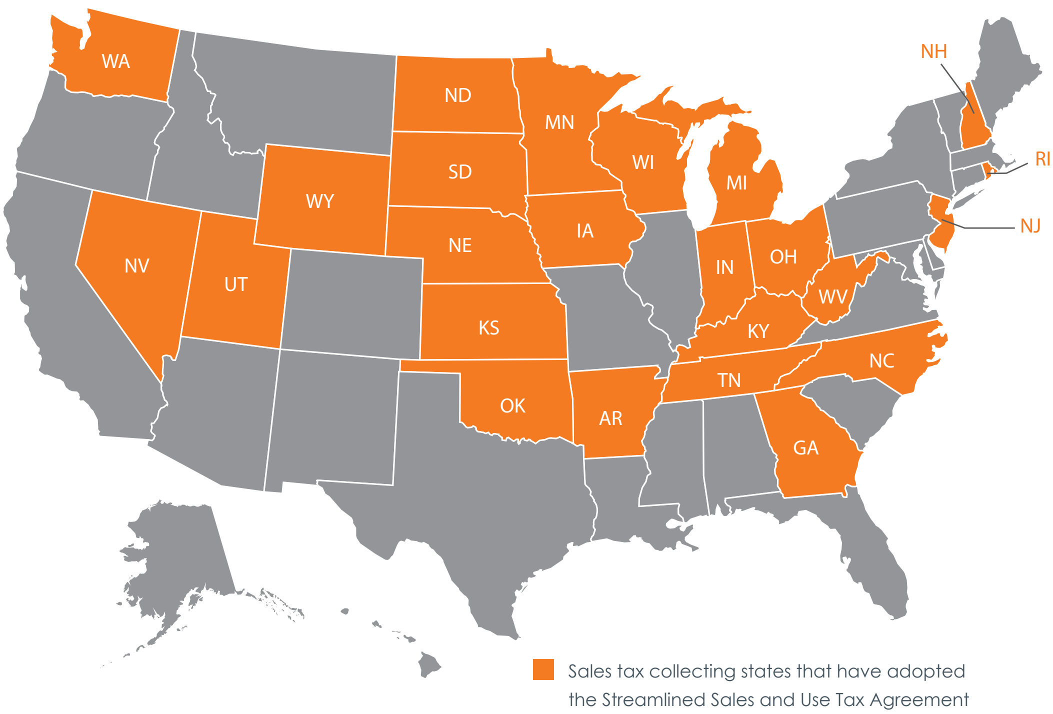
Technology companies should keep an eye on incentive programs in the states in which they are looking to grow and should ensure that they understand the tax implications of programs before applying for incentives. They should also evaluate incentives thoroughly before making a decision. With many state incentive programs capping the number of applicants that the state accepts for various programs, technology companies should be aware it is advantageous to apply early.

Amazon Rule Will Conquer More States

In 2015, states will continue to aggressively pursue internet sales tax assessments—in an effort to grab as much as they can—and technology companies are particularly exposed due to the nature in which they sell their products and services. Small and middle market technology companies with an online presence may have thought they had a competitive advantage prior to 2015 by not collecting internet sales tax. They could not be more mistaken. Technology companies that do not collect sales tax are at risk of exposure to back taxes and associated interest and penalties and are opening themselves to increased audit risk. The result—increased costs as the benefit/risk ratio does not add up. Transacting internet sales in 2015 will require that technology companies take a proactive and preemptive stance for navigating internet sales tax in order to avoid unforeseen costs and complexities.

As of January 2015, sales tax is now due on internet sales in 45 states, and 24 states already collect from remote sellers. "The trend is growing. Since the U.S. Supreme Court refused to hear Amazon's appeal of a New York case challenging the constitutionality of New York's rules—for imposing sales tax collection requirements for certain online retailers, several more states may soon adopt the Amazon rule or a derivative of it," said Duffany. The trend is toward collection of sales tax from remote sellers in all states that impose sales tax. And in a curious turnabout, "Amazon is now firmly in the pro-internet sales tax camp[5]," according to Forbes.com. "The retail giant has switched gears from anti-tax to pro-MSFA (Main Street Fairness Act)."

Streamlined Sales and Use Tax Agreement States



Source: U.S. map with Amazon rule, MSFA and SSUTA member states
http://marketplacefairness.org/compliance

[5]*http://www.taxgirl.com/internet-tax-ban-ending-soon-speaker-boehner-hopes-to-keep-internet-tax-free/*

What Challenges Does this Pose for Technology Companies in 2015?

Out-of-state retailers' responsibility to collect sales tax on purchases is changing rapidly, and while the Streamlined Sales and Use Tax Agreement simplifies sales and use tax administration for taxpayers, sales tax regulations still vary from state to state. State tax codes are modernizing, but can still be confusing and lag behind technological advances. In addition, nexus rules are complex, especially regarding SaaS (Software as a Service), cloud computing, and other services provided through the internet. "The rules for sales tax collection requirements can be difficult to understand and often lead to confusion among taxpayers," said Duffany. "This may lead to noncompliance, and the consequences of noncompliance can be significant."

How so? For starters, non-collection of state sales tax may affect future liquidity events and capital raises. Through their due diligence efforts, investors and lenders may discover noncompliance issues related to sales tax, and the result can be detrimental to a deal. The company can find itself not only at risk of being subject to retroactive sales taxes in various states, but also at risk of being subject to substantial interest and penalty assessments for sales taxes due retroactively.

"The rules are unclear and are causing confusion among taxpayers. This can lead to noncompliance, and the consequences of noncompliance can be significant."

Patrick Duffany
Partner,
State and Local Tax
Practice Leader

How Do Tech Companies Position for 2015?

CohnReznick suggests that technology companies become more proactive than ever in 2015 and take steps to ensure compliance. How should technology companies tackle compliance?

- Understand and comply with state law requirements in states where the company is doing business.
- Update practice and procedure manuals for state sales tax collection and reporting requirements.
- Ensure proper understanding on state tax implications of new out-of-state contracts and business conducted through affiliates.

What does CohnReznick *think?*

Not collecting sales tax on internet sales is not a competitive advantage in 2015. To the contrary, noncompliance will only result in costing technology companies more in back taxes and interest and penalties than the cost of administering sales tax collection. In fact, internet sales tax issues are only going to be more pervasive across more states in 2015. CohnReznick advises middle market technology executives to ensure they have the proper resources in place for proper sales tax planning as not doing so can lead to unanticipated tax expense and competitive disadvantages. Ensure timely remittance of state sales taxes to help avoid exposure to interest and penalties. And—if necessary—request a revenue ruling from a state if it has blurry guidance on the proper tax treatment of a planned transaction.

The State of Capital

The 2015 IPO Market for Middle Market Technology Companies: Progressing Upward but More Work Is Needed

Indicators pointed in the right direction for middle market IPO growth with 239 IPOs in 2014 compared to 192 middle market IPOs in 2013. More specifically, middle market technology IPOs totalled 43 in 2014 compared to only 31 in 2013. While 2014 results reveal that the middle market capital formation engine is, after more than a decade of decline, revving faster, "looking beyond the remarkable broader market IPO headlines of the past year, what we are seeing is a flat trajectory for the middle market in 2015," said Alex Castelli, a CohnReznick partner and the Firm's Technology Industry Practice Leader.

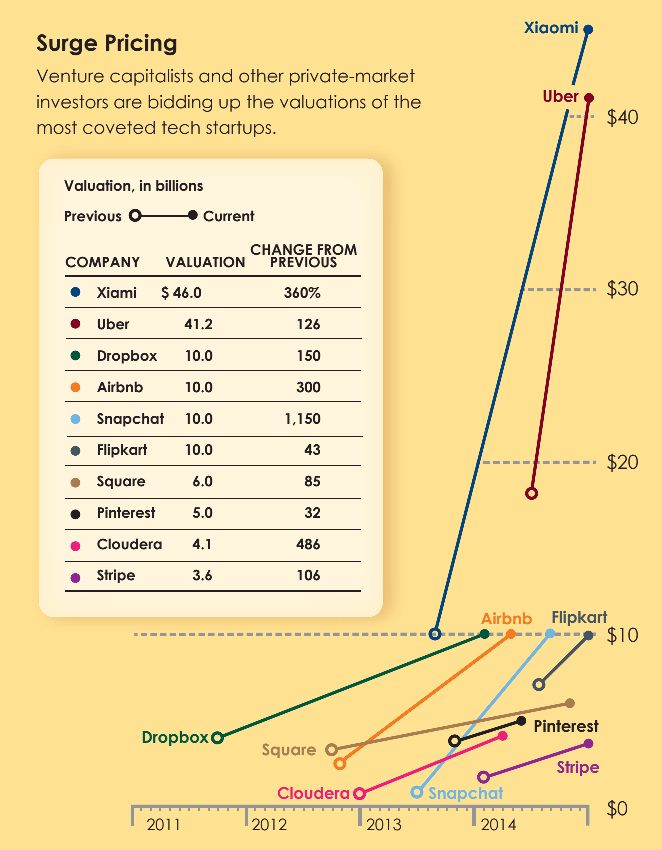
"However, a number of factors are at work in Washington that may make 2015 a watershed year for middle market public capital formation," said Castelli. While the JOBS Act is credited as a driving force behind the robust IPO recovery in the United States, it is in the midst of potential changes that could improve IPO activity including:

- Regulation A+ rules forthcoming from the SEC would be a boon to the sub $50 million IPO market. As a provision of the JOBS Act, Regulation A+ would permit a company to raise up to $50 million selling stock to the general public through a mini-IPO without being overly expensive or burdensome from a regulatory perspective.
- Congress is expected to develop and ready a JOBS Act 2 for the President's desk that could have major implications for middle market capital formation.
- The SEC Tick Size Pilot will advance, potentially stimulating capital formation activity in the middle market. The test program is designed to trade stocks in wider increments to determine whether such a change improves liquidity and market quality.
- Discussion and possible legislation to create a new form of "Venture Exchange"—a stock exchange containing small-cap stocks—will be optimized to better support middle market companies.

However, even with these changes, going public presents a major challenge for middle market technology companies. While an IPO is perceived as an ultimate form of capital-raising in the life cycle of a company, the effort and costs associated with going public are high and the process involved in completing an IPO is cumbersome. CohnReznick explores how the IPO engine in 2015 will intersect with the changing IPO landscape for the next 12 months.

IPOs Are More Feasible. But Are Companies Ripe Enough?

Heading into 2015, there is a continuing concern that current market conditions may lure investors into repeating the history of the "dotcom era." Investors are eager to put available money to work, which may lead some companies to go public even when they may be inadequately prepared to launch an IPO. Even in light of the JOBS Act's friendly IPO provisions, many privately held middle market technology companies are unprepared for the level of financial scrutiny that IPOs demand, and management teams and boards of directors may be inexperienced in the due diligence process by underwriters and potential investors. Alternatively, due to low interest rates and soaring valuations, a greater number of technology companies are considering a transaction with a strategic buyer or financial investor. For technology companies, seeking an investor in today's market is favored, as high valuations are the norm and an M&A transaction is a more streamlined path to satisfy capital needs as compared to the lengthy and more complex IPO process. According to Forbes, "…companies are increasingly finding that the value-maximizing strategy is to sell out to a large tech company that can immediately integrate the new technology into its existing products.[6]"



COMPANY	VALUATION	CHANGE FROM PREVIOUS
Xiami	$ 46.0	360%
Uber	41.2	126
Dropbox	10.0	150
Airbnb	10.0	300
Snapchat	10.0	1,150
Flipkart	10.0	43
Square	6.0	85
Pinterest	5.0	32
Cloudera	4.1	486
Stripe	3.6	106

Source: "Startup Values Set Records." The Wall Street Journal. December 29, 2014.

Keys for a Successful Launch

Companies desiring to go public should focus on several key areas in 2015. First and foremost, it is crucial that middle market technology companies:

- Analyze whether or not they have a strong infrastructure in place and whether it can be scaled for the potential exponential growth.
- Have the infrastructure to sustain the financial and regulatory rigors of being a public company.
- Can demonstrate a robust customer base and recurring revenues. "With the volatile technology sector, I can't overemphasize the importance of having consistent, growing revenue streams," said Castelli.

[6]*http://www.forbes.com/sites/jayritter/2014/07/09/why-have-small-tech-company-ipos-disappeared/*

In light of soaring valuations and the JOBS Act's constructive impact on middle market companies, where should technology companies focus in 2015 in consideration of going public? According to Castelli, technology companies should:

- Demonstrate that they are prepared and ready for the public markets and clearly communicate a compelling growth story to the investment community. Heading into 2015, earnings, revenue, and market share will be the factors that make for a believable IPO story—one that demonstrates that a company is likely to succeed.
- Put a knowledgeable management team and board in place—preferably including individuals with prior IPO and public company experience.
- Follow in the footsteps of public companies by implementing sound internal controls and financial reporting policies and procedures.
- Strengthen the company's back office infrastructure to be able to respond to increased reporting requirements and deal with the tax implications of the IPO.

What does CohnReznick *think?*

Although IPOs will continue to serve as a challenging capital raising strategy into 2015, middle market tech companies with a compelling story, stable revenue stream, solid margins, market share potential, brand differentiation, and the potential for growth will be better positioned to take advantage of the IPO market.

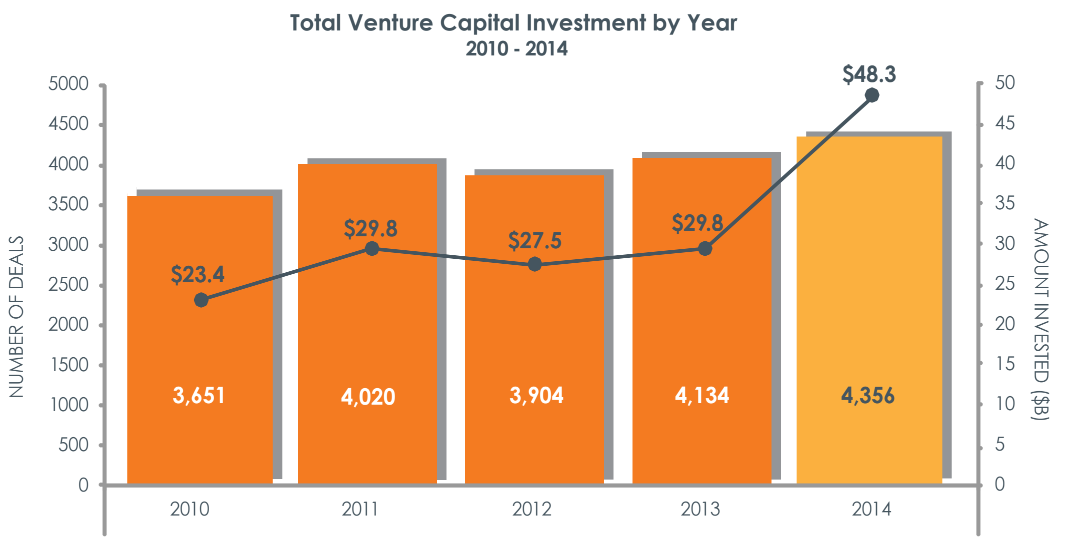
Raising Capital in 2015: Opportunities Abound

For middle market technology companies looking for funding in 2015, data suggests that funding by venture capital firms and Angel investors is increasing. CohnReznick advises that technology companies become knowledgeable and aware of the benefits and challenges related to each funding source. As the U.S. economy heads into 2015, capital is abundant, interest rates are low, and competition is high among investors and lenders for quality deals requiring funding.

Following the Money

In an upward trend, venture capital (VC) investing for 2014 hit the $48 billion mark—and continues to barrel ahead into 2015[7]. This represents the highest annual amount since 2000 and more than the total invested in 2013. What does this mean for middle market technology companies? Greater venture capital-raising opportunities into 2015. Aside from the total numbers, the break-down also reflects a trend in VC funding not only for early-stage, but later-stage companies as well, with solid customer bases and steady revenues[8].

In another upward trend, early-stage Angel-Series A financing continued its upward trend in November 2014 hitting the $1 billion mark for the third-straight month according to CBI Insights. While the pool of Angel-Series A financing is less than the pool of VC financing, internet startups comprised two thirds of these deals[9].



Source: Thomson Reuters

[7]*Here's What Venture Capitalists Want To Fund In 2015 - And What They Don't. Robert Hof. Forbes. Dec. 9, 2014. http://www.forbes.com/sites/roberthof/2014/12/09/heres-what-venture-capitalists-want-to-fund-in-2015-and-what-they-dont/*

[8]*"Venture capital funding survey, third quarter 2014." San Jose Mercury News. November 7, 2014. http://www.mercurynews.com/www.siliconvalley.com/venture-capital-survey/ci_26879647*

[9]*"Early Stage Tech Companies Raised $1 Billion+ in November – 3rd Month in a Row Over Billion." CBInsights. Dec. 9, 2014. https://www.cbinsights.com/research/?p=2349*

Although the VC funding market is larger than the size of the Angel market, companies with revenues are likely to have an easier time getting Angel funding. According to CohnReznick, Angels look for revenues—companies with traction. "Raising a significant Angel round may be more likely than raising money from VCs. Companies can raise $1–2 million with Angels," said Castelli. Therefore, demonstrating traction in the marketplace to attract Angel investors, and connecting with investors with skills and resources to help the company are key. How does a company find the right investors? It is imperative to do the research, find out who invests in the company's space, and then network to find the people who can assist in getting the deal done.

Crowdfunding: Where's the Crowd?

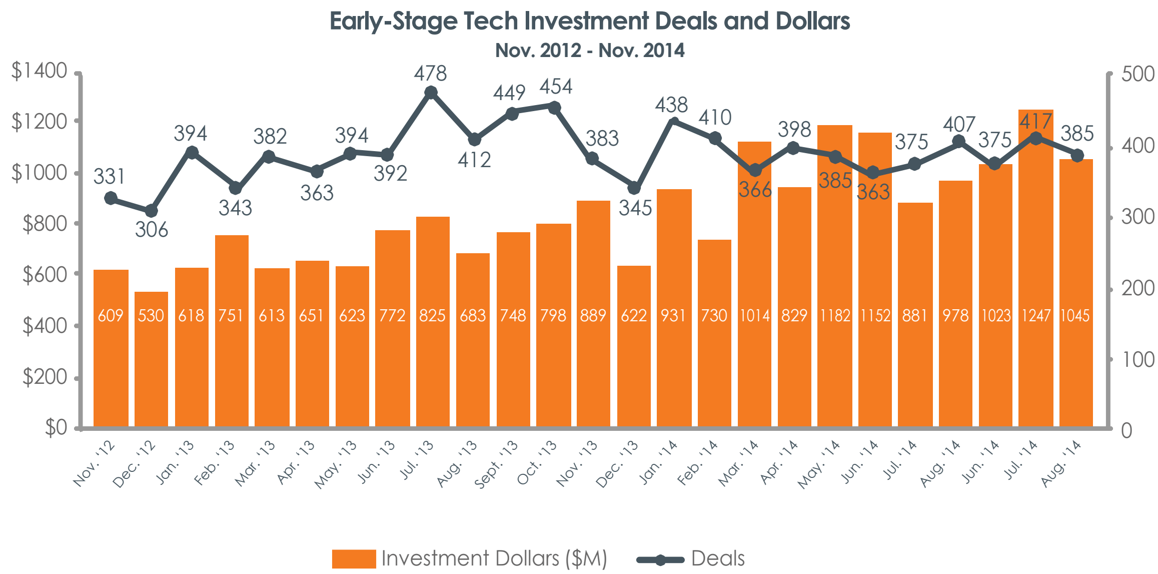
In a recent CohnReznick survey on crowdfunding, the results revealed that "only 2% of middle market executives will investigate provisions of the JOBS Act (including crowdfunding) as a potential source of capital." The survey reveals that just one-third of respondents at smaller middle market firms are familiar with the JOBS Act, which advocates have invoked as a catalyst of the current economic recovery and the IPO boom. However, the report also revealed that half of the respondents at larger middle market firms are "somewhat or very familiar with the various components of the JOBS Act." We believe that as equity crowdfunding becomes better understood, companies will learn how to utilize it to raise capital—albeit the process will take time and accredited investors are more likely to be adopters.

crowd • funding

the practice of funding a project or venture by raising many small amounts of capital from a large number of investors, typically via the internet.

Weighing (and Positioning for) Funding Options in 2015

While the billion dollar capital transactions are usually the ones featured in the press, middle market technology companies can be enormously successful in raising funds in today's capital environment. Technology companies are generally not prime candidates for funding from traditional commercial banks as loan covenants may be onerous and personal guarantees may not be feasible. Given that many technology businesses are not prime candidates for traditional bank lending, which alternative funding options may be more accessible to middle market technology companies in 2015? According to Castelli, "In today's funding marketplace, there are a number of nonbank sources of capital including mezzanine funding and government grants. However, there are also other options—such as quasi-public organizations that invest in tech companies. Middle market technology companies should look at all of these programs. However, they should keep in mind that sustainable revenue growth is integral to many (if not all) funding options as the more that a technology company positions itself for sustainable revenue growth, the broader their funding options in 2015. In today's low interest rate environment, technology companies have many of funding options," said Castelli.



Source: http://www.forbes.com/sites/roberthof/2014/12/09/heres-what-venture-capitalists-want-to-fund-in-2015-and-what-they-dont/print/

What does **CohnReznick** ***think?***

Survival of the fittest in today's capital markets environment is all about developing the fundamentals of a technology business: acquiring customers, building sustainable revenue growth, and scaling the business. We believe funding options will continue to avail themselves in 2015 for those companies that focus on these financial fundamentals. With this focus in mind, middle market technology companies can better position themselves for broader and more advantageous funding opportunities in 2015.

Growth Factors

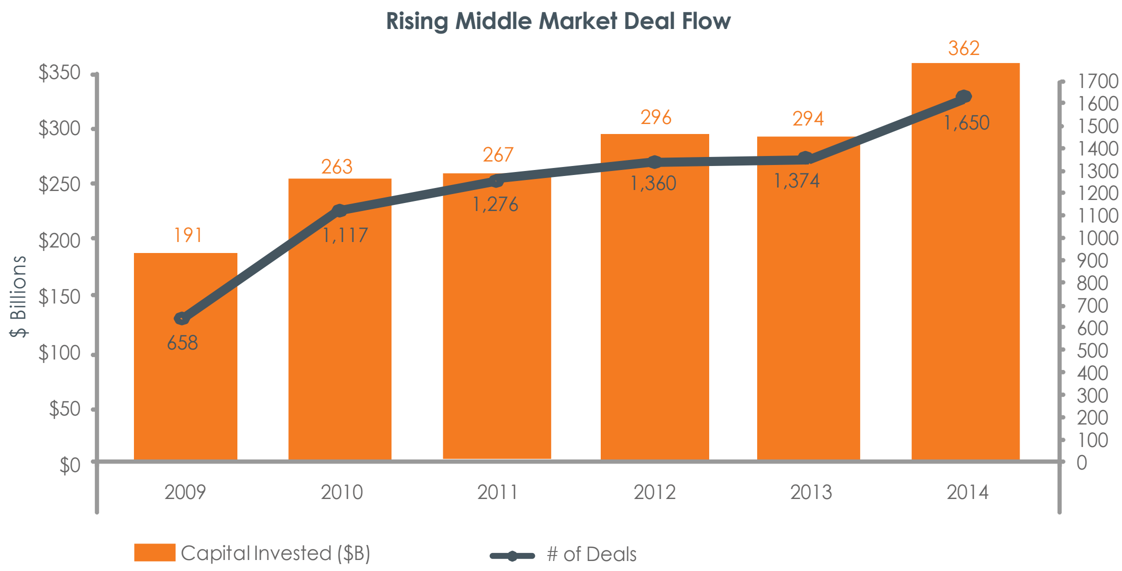
Tech Companies in the Midst of the 2015 M&A Tornado

From 2013, M&A transactions in the U.S. climbed by 51.4% to $1.53 trillion in 2014. While the numbers are staggering, is this level of M&A activity sustainable? A number of factors have contributed to the surge in merger and acquisition activity as the technology industry heads into 2015:

- Historically low interest rates lend to a business environment where investors look for returns in the market
- High EBITDA multiples
- Subsequent to the cost-cutting, organic growth years of the recent recession, companies are looking to M&A as a way to acquire innovation and keep growing
- An abundance of capital

"2015 may be a year of profit-taking, as term loans become due and private equity firms reap returns on investments they made in middle market technology companies back in 2007, 2008, and 2009," said Stephen Jackson, a CohnReznick partner. Compounding the M&A frenzy is the escalating pursuit of larger companies looking for a technology or algorithm they want to acquire. Clearly, heading into 2015, the technology market is feverishly consolidating through mergers and acquisitions (M&As).

"Transactions beget transactions and nobody wants to go first, but once it starts to move there is pressure to do something," said Michael Carr, head of Americas M&A at Goldman Sachs. "A lot of these industries are down to a very small number of players so the consequences of inactivity are potentially significant."



Source: Pitchbook

Cash Is Not King—Revenue Is

Where should technology companies focus in order to ride the M&A wave in 2015? "They should focus their efforts on the top line—revenues," said Mark Hooley, a CohnReznick partner. The more revenue a company generates or has the potential to generate, the more effectively the company positions itself to achieve higher EBITDA, thus higher multiples. It is imperative to show a strong customer base and recurring revenues as a solid, consistent, and sustaining revenue stream is an enabler of operational upgrades, improvements, and future growth. While it is typical for smaller technology companies to get in the market, make money fast, and subsequently exit in the near-term, tech companies are increasingly making synergistic and complementary acquisitions to increase revenues long term.

Accordingly, with EBITDA multiples at an all-time high heading into 2015, savvy technology companies should ask whether it makes more sense to increase revenues by relying on organic growth or growing their top line through acquisition. CohnReznick recommends evaluating whether to innovate internally and from scratch or seek out complementary technologies that are either further down the production chain or located in desirable regions of the country. The cautionary item to be prepared for is that the more developed that a technology is, the higher the cost of acquisition and the greater the potential for other investors to drive up the company's value.

> **"The top three things middle market technology companies should do to attract mergers and acquisitions in 2015 are innovate, innovate, and innovate."**
>
> Mark Hooley
> Partner,
> Member of CohnReznick's
> Technology Industry Practice

"The top three things middle market technology companies should do to attract mergers and acquisitions in 2015 are innovate, innovate, and innovate. Companies must have a pipeline, expand the services they sell, and offer unique services in order to be seen as the market leader. The bottom line is that companies need to have a good story to tell" said Hooley.

Marketing your product is key in telling your story. "How do I brand this product/service and get it talked about? Social media. That's what is going to create buzz and momentum—it drives value," said Castelli.

Ready or Not . . .

Timing is everything and companies need to be prepared when a window of opportunity opens. The bottom line is that the window for transactions opens and closes in large part in response to volatile market conditions and technology companies looking for an M&A transaction need to be prepared well in advance. CohnReznick believes that the level of financial scrutiny involved in the due diligence process finds most privately held middle market technology companies unprepared for the process.

From a strategic planning standpoint, concrete steps that technology companies can take to be more prepared are to:

- Put an experienced team in place early to begin due diligence and prepare requested financial information and analyses.
- Consider enhancing internal controls over financial reporting to become more attractive to potential public company acquirers.
- Plan for the infrastructural requirements of an exit and the tax implications of the transaction.

What does CohnReznick *think?*

Investors want to see an innovative edge, growth potential, market share, revenue stream, solid margins, debt pay-down, and brand differentiation. "The bottom line is that companies need to remain relevant to the market," said Hooley.

Game Changers: Play Or Pay?

Strategic game changers are more likely than ever to be the difference between growth and stagnation in 2015. The global business environment is changing at warp speed and several pervasive developments have the propensity to alter the playing field for technology companies in 2015. Case in point: many retailers paid scant attention to prioritizing their online presence until Amazon cast a shadow on retailers' bricks-and-mortar method of doing business. Similar to Amazon's impact on the retail industry, what are other issues that are on the horizon that will impact the trajectory of technology companies in 2015? CohnReznick believes there are a number of game changers that have the potential to influence the performance of technology companies—from subscription models and advances in technology productivity to immigration reform, digital currency, and the capital markets ecosystem. How can middle market technology companies keep pace and compete?

game • changer

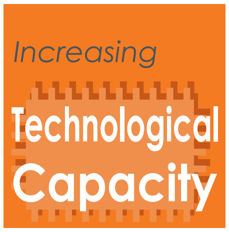
an event, idea, or procedure that effects a significant shift in the current manner of doing or thinking about something.

The continuing shift to a subscription model improves a company's financial foundation, enables the company to be more attractive to investors, improves client retention, and perhaps even drives innovation. Another benefit of the subscription model is that some customers may pay for a year in advance, which gives the technology company money to fund new innovation and growth. It is essentially a form of interest-free financing. A continued emphasis on building subscription models to ensure consistent revenue streams will continue in 2015. Those technology companies that build a corporate structure around the subscription model are more likely to:

- Have a steady, recurring revenue stream that is easier to scale as more subscribers are acquired.
- Be in a better position to retain customers with innovative product and service upgrades.
- Benefit from additional engagement and communication with customers.
- Attract the attention of strategic or financial investors.

According to CIO magazine, Adobe, SAP, and Autodesk all shifted to a subscription-management model within the past 15 months. In a continuation of this trend, the model is predicted to overtake perpetual licensing and maintenance by 2019[10]. CohnReznick believes that market demand for subscription models, in and of itself, may be the biggest driver of the increasing trend to use subscription models.

[10]*"Tech Industry subscribes to New Revenue Model". Tom Kaneshige. CIO. June 5, 2014.*



Middle market technology companies will have greater access to decision-making tools that were once reserved for only the largest companies with the deepest pockets. When it comes to the increasingly competitive nature in the technology space, CohnReznick believes technology itself can enable middle market technology companies to level the playing field. "If a technology company could harness the power of productivity tools—cloud-based solutions, data analytics, and business intelligence solutions—that could catapult them above the competition," said Castelli. There exists so much capacity in the cloud that users are limited by only their brainpower and imaginations. The conundrum is that workers need to understand and be able to use these tools.

In addition to cloud capabilities, in 2015, look for middle market technology companies to continue making investments in data analytics tools in order to more effectively identify new clients and their buying behavior, as well as render their companies leaner and more competitive. There is significant opportunity with big data analytics given all the data that is accumulated by software products and apps. Those companies that are able to figure out how to best utilize big data analytics and create new products for customers will find this to be a competitive advantage in 2015.

A vibrant capital markets ecosystem will encourage innovation and energize partnerships. Seasoned and experienced financial and strategic investors with plenty of cash to invest will continue to seek high quality technology companies to add to their portfolios. "Investors—including Angels, venture capital firms, and corporates—actually help drive innovation in the technology sector. They provide much needed capital in the form of debt or equity, and technology companies use proceeds raised to accelerate innovation, which creates value and attracts additional investment. It is a self-feeding ecosystem benefitting itself, a number of tangential industries, and the broader economy," Castelli said. Many startups and companies have grown as a result of their relationships with incubators and accelerators, which predominately are designed to help startups in the technology space. According to TechCrunch, technology companies stand to improve their valuations, exit successfully, sustain operations, and achieve additional financing after benefitting from an accelerator program[11]. In the absence of major market disruptions or corrections, look for even higher valuations as quality investments become more difficult to identify.

Immigration reform appears likely although it is more of the largest technology companies that stand to benefit most from the proposals circulating in Washington. According to CohnReznick, one of technology companies' greatest challenges is finding enough skilled workers to employ. "Any piece of immigration reform that makes more highly skilled workers available will be supported by technology company executives," said Castelli. However, from a competitive perspective, smaller and middle market technology companies will need to be creative in their efforts to obtain and retain highly skilled foreign workers in order to compete with the higher salaries offered by larger technology companies. Even so, President Obama may expand the Optional Practical Training program, which would allow a large number of foreign students studying in the U.S. to take jobs in the technology industry while in school and after graduation. Simple supply

[11] *"These Are The 15 Best Accelerators In The U.S." Jonathan Sheiber. TechCrunch. March 10, 2014. http://techcrunch.com/2014/03/10/these-are-the-15-best-accelerators-in-the-u-s/*

and demand economics would suggest that any legislation resulting in a broader pool of qualified candidates to choose from would result in a more abundant and competitive workforce.

2015 may be the year for technology companies to more seriously consider the advantages and disadvantages of bitcoin or other virtual currencies as payment methods. While bitcoin transactions are made with no middlemen, and therefore have no bank or servicing fees, there are clear disadvantages. Bitcoin and other virtual currencies involve risk as they're not backed by a bank which therefore, makes the currency more volatile. Even though there is a tendency for technology companies to act as early adopters, it makes sense for companies to do their homework and consult their legal and accounting advisors before diving into the virtual currency pool.

What type of technology companies would do well to partner with, acquire, or merge with a virtual wallet? The type of technology company is generally irrelevant. However, geography is factor—accordingly, CohnReznick encourages technology companies with cross-border operations to take a hard look at the benefits and potential risks involved in adopting a virtual currency.

“If a technology company could harness the power of productivity tools—cloud-based solutions, data analytics, and business intelligence solutions—that could catapult them above the competition.”

Alex Castelli
Partner and Technology Industry Practice Leader

What does CohnReznick *think?*

Technology companies are well-versed in the rapid tempo within which the industry is moving and game-changers are a propeller of that movement. However, technology companies should keep in mind that game-changers can result in negative as well as positive business consequences. A company's tolerance for risk with respect to game-changers will be a factor in the level of action—or alternatively—inaction, a company takes. Accordingly, it behooves middle market technology companies to stay abreast of these game changers and act proactively in order to ensure that the risk/reward pendulum is swinging in their favor.

Legislation

The Revenue Recognition Storm is Coming—A Matter of When, Not If

Private and public technology companies that have not yet addressed how to navigate the new revenue recognition standard[12] may be caught in a storm if they wait much longer to do so. While application of the new standards is not required until December 15, 2016 for public entities and December 15, 2017 for private entities, there are significant risks to not having a plan as we enter 2015. Technology companies can be certain that the new revenue recognition standards will have a pervasive impact on their organizations and will touch every aspect of people, processes, and systems. In fact, technology companies contemplating liquidity events may be surprised to learn that compliance with the new revenue recognition standard may impact transaction price.

All Hands on Board—the Whole is Greater than the Sum of its Parts

Whether it is a public or a private company, technology organizations need to be supremely concerned about how they recognize revenue on their books—and as importantly, how they plan on complying with the new revenue recognition standards. Clearly, there are obvious reasons for doing so. However, should the new revenue recognition guidance dictate how companies sell their products and services in the coming two years? "Absolutely not. Accounting should not dictate how you grow your business and how you sell your products and services," said Hooley. "At the end of the day, you want to grow revenues under the most profitable sales scenarios."

However, the new rules set forth some complications that will make it important for companies to take measured steps in order to:

- Estimate variable consideration;
- Determine the impact of contract modifications; and
- Determine whether products or services are distinct.

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[12] *Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers*

The practicality of compliance, however, can be challenging. All departments need to communicate with each other in order to structure contracts profitably while complying with the new revenue recognition standard. While the accounting department should drive the process, the legal, sales, and IT departments—all the way up to C-suite executives— should be educated about how their verbal or implied obligations impact revenue recognition under the new rules. "Companies that will be most negatively affected in 2015 and beyond are those that have sales teams with loose parameters around how they sell; those that have policies and procedures that are not tight," says Hooley. Why? Because implied and verbal promises made to customers by any department may very well have an impact on compliance with the revenue recognition standard.

"Whether you are a public or private company with reporting requirements to stakeholders, it is important to be concerned about how the company recognizes revenue on the books."

Mark Hooley
Partner,
Member of CohnReznick's
Technology Industry Practice

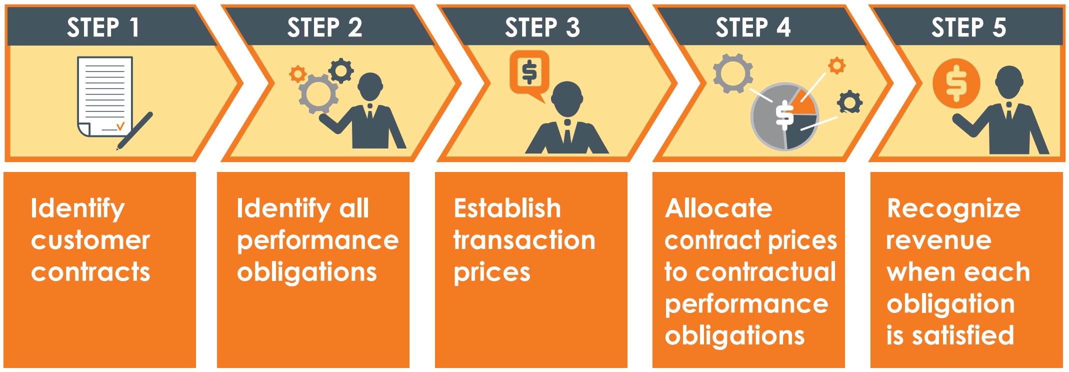
How Will the New Revenue Recognition Standard Impact Investors in 2016 and Beyond?

There will be an impact to financial statement comparability in the earlier years of implementation. However, professional investors are savvy enough to not allow accounting standards to drive investment decisions—they understand the market potential for a product or service. The rules related to how revenue is recognized will continue to take a back seat to disruptive technologies with large market opportunities.

But are there opportunities for technology companies to distinguish themselves with investors when it comes to the new revenue recognition standard? "An investor's number one priority will be to understand the company's revenue recognition practices. Any lack of credibility, whether real or perceived, that a company has in substantiating revenue recognition could impact transaction price or the negotiation process. The biggest source of losing negotiating position is when there is a perceived lack of credibility in how items are accounted for on the books. So, yes, companies can put themselves in a position of strength with investors or suitors by being proactive and having sound documented policies with respect to revenue recognition." said Hooley. Technology companies who are in compliance and have done their internal due diligence can instill confidence in a potential investor about the integrity of the financial statements and reduce the risk of compromising negotiating power.

Prepare Upfront to Avoid Disaster

In 2015 and beyond, it is critical that middle market technology companies shore up their internal resources in preparation for implementation of the new revenue recognition standard. This will be challenging as many middle market technology companies do not have idle resources on standby to implement the new revenue recognition standard. "You have staff with a 40-hour workweek having to add 20 hours a week or more to do the extra work. The reality is, middle market companies who do not have the resources to implement the revenue recognition standard should start brainstorming resource solutions now" said Hooley.



What does CohnReznick *think?*

In 2015, forward-looking technology companies are considering their business practices and the contractual and implied promises they make. Organizations should use this upcoming 12 months to figure out how to implement and/or change policies and procedures and how to talk to their sales and other internal departments on how contracts are structured. However, as of the date of publication of this report, FASB was contemplating delaying the required revenue recognition standard implementation dates. "I think FASB will defer implementation for some amount of time, implementation of sweeping standards like this is difficult to predict," said Hooley. "But that does not mean hold off on preparation—take the time to start now and use any additional deferral to refine and challenge judgments and assessments made."

Can Taxpayers Be Paying Tax on More Than 100% of Net Income in 2015? Absolutely.

In 2015, CohnReznick believes that states will continue to expand their tax reach to out-of state companies. According to the Nelson A. Rockefeller Institute of Government, collections from major tax sources rose 4 percent in nominal terms for the third quarter of 2014. The Institute anticipates increasing state tax collections, with continued growth throughout 2015[13]. Previously, U.S. state government tax revenue surged in 2013, as states pulled in 6.1% more revenue than they did in 2012 for a record $846.2 billion, according to the Census Bureau. 2014 makes it the third year in a row that state tax revenues rose[14].

States Aggressively Pursue Tax Collection

How are states expanding their ability to tax an out-of-state business? States continue to lower the threshold used to establish tax nexus—the standard used to determine if the activities of an out-of-state company are sufficient to subject the company to a states' income tax regime. Harry Tuul, a senior manager in the State and Local Tax Practice at CohnReznick, believes this is due to states' more aggressive tax revenue pursuits for a variety of reasons going into 2015.

In addition to lowering nexus standards, states are changing the methods in which net income of a company is apportioned to a state. Apportionment is generally the method by which a multistate business divides up net income to be reported in more than one state. Recent changes in apportionment methods are meant to level the playing field between resident and nonresident companies. However, the changes in apportionment methods may lead a non-resident company paying total state income tax on more than 100% of its net income. This is especially true for technology companies that provide services such as the licensing of software.

"For income tax purposes, states are recasting the definition of economic and physical presence. As middle market technology companies plan for growth in 2015, they should consider the costs and benefits of establishing a taxable presence before moving forward with a business opportunity in a state."

Harry Tuul
Senior Manager,
Member of CohnReznick's
Technology Industry Practice

[13] *"Sunshine After the Rain: Revenue Collections Resume Growth After Declines in the First Half of 2014." The Nelson A. Rockefeller Institute of Government." December 11, 2014.http://www.rockinst.org/newsroom/data_alerts/2014/2014-12-11-Data_Alert.pdf*

[14] *"U.S. State Government Tax Revenue Rises Third Year to Record." Bloomberg. April 8, 2014. http://www.bloomberg.com/news/print/2014-04-08/u-s-state-government-tax-revenue-rises-third-year-to-record-1-.html*

“For income tax purposes, states are recasting the definition of economic and physical presence” said Tuul. “As middle market technology companies plan for growth in 2015, they should consider the costs and benefits of establishing taxable presence before moving forward with a business opportunity in a state.” Through effective state tax planning it may be possible to manage the tax cost of doing business in a state in a favorable manner which may lead to increased profitability for a company. Effective tax planning relies in large part on maintaining books and records that accurately report sales, property, and employee activity by state. This information is used directly in apportioning net income among the states where a company does business. Other information may be required depending on the nature of a company’s business operations and how the company delivers its goods and services to its customers.

What does CohnReznick *think?*

CohnReznick believes that technology companies hoping to expand their business in 2015 into multiple states should start pursing effective tax planning methods as early as possible in the growth process. Identifying and understanding the potential tax cost of doing business in more than one state will help a growth company avoid unwanted surprises from state income taxes once a business decision has been made. This is particularly true in today’s tax environment where states are clearly expanding their tax reach.

Competing Across Borders in 2015 While Staying Afloat in Foreign Tax Waters

> **“Where are companies moving to avoid the U.S.’s 35% rate? Common destinations include Ireland (tax rate 12.5%), the United Kingdom (21%), and the Netherlands (25%).”**
>
> James Wall
> Principal,
> International Tax Practice Leader

Technology companies can expect international competition to only expand in 2015, as lines between borders continue to rapidly fade. How can middle market technology companies compete, while maintaining tax compliance to ensure that the money coming in the “foreign trading door” is not going “out the tax and regulatory compliance door?” U.S. corporate tax rates are among the highest in the world and CohnReznick believes that they are not likely to change in 2015. Foreign jurisdictions with favorable corporate tax rates are courting U.S. companies—and technology companies, in particular, are at the top of their lists. They understand that technology creates jobs and they have created incentives for companies to start operations.

The Group of Twenty (G20) is an international forum for the governments and central bank governors from 20 major economies.

How are G20 countries “leveling the tax playing field” so that low tax jurisdictions receive their fair share of the tax pie? The Organization for Economic Co-operation and Development (OECD) is in the midst of implementing the Base Erosion and Profit Sharing (BEPS) Project. What is BEPS? It is a United Nations’ initiative aimed at making it more difficult for companies to shift profits to low- or no-tax foreign jurisdictions where modest or no corporate tax is being paid. Many countries are requiring businesses to report profits earned in every country where they have a presence.

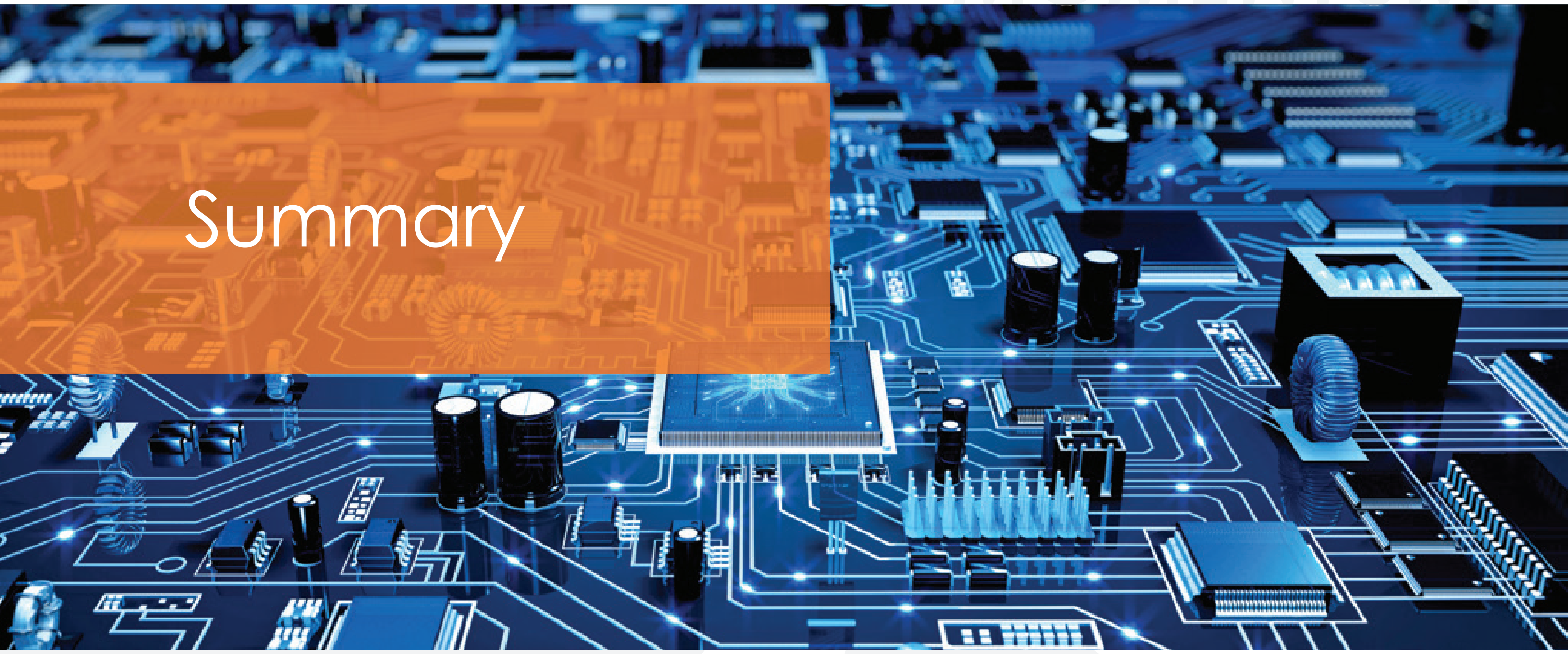
In light of BEPS, what are the key tax issues that middle market technology companies should focus on in their efforts to do business across borders in 2105. Technology companies should:

- Prepare for ever-expanding regulatory scrutiny, disclosure, and additional reporting complexity;
- Focus on compliance with transfer pricing documentation requirements;
- Brace themselves for increased regulatory focus on cross-border payments that could be perceived as being designed to shift profits from one jurisdiction to another.

Middle market technology companies expanding internationally should track earnings and profits to be reported to the IRS. “If you are expanding outside the United States, you need to prepare yourself for ever-expanding scrutiny and disclosures,” said James Wall, a CohnReznick principal and the Firm’s International Tax Practice Leader. “Be prepared for complex reporting obligations to multiple governmental bodies. And brace yourself for non-compliance costs. Understand that penalties for failure to report can be severe—in the U.S., that can be up to $10,000 per international form missed.”

What does CohnReznick *think?*

CohnReznick expects increasing regulatory compliance complexities in 2015 in addition to uncertainty about the taxation of overseas profits. The cost of non-compliant or incomplete filings can be prohibitive. However, middle market technology companies are a hot commodity for many jurisdictions—and numerous countries compete for technology businesses. Technology companies can be more competitive by becoming aware of the numerous incentives offered by various jurisdictions and the corresponding regimes that can make them more competitive.



Summary

An expanding U.S. economic environment, coupled with soaring market demand for the next generation of technology—is setting the stage for mounting growth in the technology sector in 2015. With competition high among investors and lenders for quality deals, and M&A activity rising at a record pace, the factors necessary to support expansive growth within the sector are firmly in place.

A solid understanding of 2015 game changers—including market demand for innovative technologies, sustainable revenue growth and more stringent regulatory issues will provide middle market technology companies with the armor required to more effectively manage their businesses and position for expansion in 2015. As with any business year, it is always imperative to identify and act on the trends, opportunities, and challenges that can propel technology companies to be more competitive. Evident by the pace at which the technology sector is moving, 2015 is clearly no exception.

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About CohnReznick's Technology Industry Practice

CohnReznick's Technology Industry Practice assists private, public, and investor-backed companies at each stage of their life cycles. Technology clients are served by a team of partner-led professionals who have extensive knowledge of industry-specific accounting and tax issues. As such, we are instrumental in helping clients understand the financial and operational risks and rewards inherent in most business decisions. With contacts throughout the investment and banking communities, CohnReznick can help make introductions to venture capital firms, private equity groups, and strategic investors.

CohnReznick Advantage for the Technology Industry

- **Industry Insights, Optimized Solutions –** We understand the accounting, tax, and business issues facing technology companies through start-up, growth, and late stage development and offer solutions, best practices, and ideas to help attract investors, minimize risks, and identify and maximize opportunity.
- **Transformative Advice –** Timely and proactive observations are introduced concerning technology industry trends and technical accounting and tax issues, such as raising venture capital, crowdfunding, internet sales tax regulations, and others tailored to growing technology companies.
- **Responsive Culture –** To keep pace with the speed of the industry, our partners are accessible and appreciate the need for timely and efficient responses to founder, investor, and management requests.
- **Capital Markets Dexterity –** We help clients understand, prepare for, and maximize value from a liquidity event or capital raise. We can introduce them to the appropriate funding sources, including venture capital, private equity, and strategic investors.
- **Proactive, Resourceful Service –** Partner-led service teams understand the unique nature of the technology industry offering value-added resources throughout the engagement.
- **National with Global Reach –** Companies with international interests are served seamlessly and cost-efficiently through our affiliation with Nexia International, a top 10 worldwide network of accounting firms.

About CohnReznick

CohnReznick LLP is one of the top accounting, tax, and advisory firms in the United States, combining the resources and technical expertise of a national firm with the hands-on, entrepreneurial approach that today's dynamic business environment demands. Headquartered in New York, NY, and with offices nationwide, CohnReznick serves a large number of diverse industries and offers specialized services for middle market and Fortune 1000 companies, private equity and financial services firms, government contractors, government agencies, and not-for-profit organizations. The Firm, with origins dating back to 1919, has more than 2,700 employees including nearly 300 partners and is a member of Nexia International, a global network of independent accountancy, tax, and business advisors. For more information, visit www.cohnreznick.com.

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